How Do Utilities Look After an Early Rate Hike?

Description

The Bank of Canada elected to raise rates in the first meeting of 2018, which could spell trouble for utility stocks down the line. The benchmark Canadian interest rate is now at its highest level since 2009. Utility stocks have been a great source of income since the Great Recession, as other income-yielding vehicles have declined with historically low rates. Low interest rates have also allowed utility companies to make substantial investments in infrastructure.

This latest move should not deter investors from holding utilities in their portfolios for the long term. The central bank struck a cautious tone, even after the rate hike, stating that further stimulus may be needed to bolster the economy. Canadian economic growth is expected to slow, along with other advanced economies, in the next decade. The return to pre-financial crisis interest rate levels still appears dubious considering some of the underlying problems in the Canadian economy.

Let's review three top utilities stocks.

Fortis Inc. (TSX:FTS)(NYSE:FTS)

Fortis stock has declined 4.6% in 2018 as of close on January 18. Shares reached an all-time high of $48.73 in mid-November after the company reported impressive third-quarter 2017 results. The company also announced a quarterly dividend of $0.43 per share, representing a 3.8% dividend yield. Fortis has delivered dividend growth for 44 consecutive years.

Fortis gave an update on its clean energy plan on January 8. The company reports that total greenhouse gases emitted per million dollars of revenue has decreased by 10% from 2014 to 2016. A focus on delivering clean energy will be a big part of its $14.5 billion capital investment plan. This initiative is good news for shareholders, as Canada and other advanced economies look to make huge strides to reduce emissions in the coming years.

Hydro One Ltd. (TSX:H)

Hydro One stock has declined 2.2% in 2018. Shares have fallen 8% year over year. The company provides power to customers in Ontario, and it remains to be seen if the unseasonable cold wave will have had a positive impact on revenues in the most recent quarter. Hydro One last announced a quarterly dividend of $0.22 per share with a 4% dividend yield.

On January 17, Hydro One and **Avista Corp.** received approval from the Federal Energy Regulatory Commission (FERC) for the proposed merger. The transaction is still awaiting final approval from regulatory bodies in Washington, Idaho, Oregon, Montana, and Alaska.

Canadian Utilities Limited (TSX:CU)

Canadian Utilities stock has declined 3.9% in 2018 thus far. Shares have dropped 2.8% year over year. In late December, Canadian Utilities transferred ATCO Structures and Logistics Ltd. to **ATCO Ltd.** ; it previously held a 24.5% in the business segment.

In the third quarter of 2017, Canadian Utilities posted adjusted earnings that were flat year over year at $96 million. The company announced a quarterly dividend of $0.39 per share, representing a 4.3% dividend yield. Canadian Utilities boasts over 45 consecutive years of dividend growth.

CATEGORY

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2. TSX:CU (Canadian Utilities Limited)
3. TSX:FTS (Fortis Inc.)
4. TSX:H (Hydro One Limited)

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